

## HSBC SDG Bond

**Type of Engagement:** Annual Review

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### Introduction

In November 2017 and October 2018, HSBC issued SDG bonds aimed at financing projects which advance UN Sustainable Development Goals 3, 4, 6, 7, 9, 11, and 13. In August 2019, HSBC engaged Sustainalytics to review the projects financed through the issued bonds and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the HSBC Sustainable Development Goal (SDG) Bond Framework.

### Evaluation Criteria

Sustainalytics evaluated the projects and assets funded as of June 2019 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Green Bond Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Green Bond Framework.

Table 1 lists the Use of Proceeds and Eligibility Criteria, while Table 2 list the associated the KPIs.

**Table 1: Use of Proceeds, Eligibility Criteria, and Key Performance Indicators from the Framework**

Use of Proceeds	Eligibility Criteria	Key Performance Indicators
SDG 3: Good Health and Well-being	<ul style="list-style-type: none"> <li>• Activities that strengthen the capacity of all countries, in particular developing countries, for provisions of free or subsidized healthcare, and early warning, risk reduction and management of health crises</li> </ul>	<ul style="list-style-type: none"> <li>• Number of hospitals and other healthcare facilities built/upgraded</li> <li>• Number of health checks provided</li> <li>• Number of residents benefitting from healthcare which is otherwise not accessible</li> </ul>
SDG 4: Quality Education	<ul style="list-style-type: none"> <li>• Activities that expand access to primary, secondary, adult and vocational education</li> <li>• Activities that target women and minority inclusion in education</li> <li>• Activities that improve educational infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Number of educational institutions funded – location and type</li> <li>• Number of students supported</li> <li>• Number of years of education provided which is otherwise not accessible</li> </ul>
SDG 6: Clean Water and Sanitation	<ul style="list-style-type: none"> <li>• Activities that expand public access to safe and affordable drinking water</li> <li>• Activities that provide access to adequate sanitation facilities</li> <li>• Activities that improve water quality</li> <li>• Activities that increase water-use efficiency through water recycling, treatment and reuse (including treatment of wastewater)</li> </ul>	<ul style="list-style-type: none"> <li>• Number of tonnes of clean water provided</li> <li>• Number of units of water hygiene equipment provided</li> <li>• Number of water infrastructure projects built i.e. dams, reservoirs</li> </ul>

<p>SDG 7:  Affordable and Clean Energy</p>	<ul style="list-style-type: none"> <li>• Generation of energy from renewable sources</li> <li>• Construction / maintenance / expansion of associated distribution networks</li> <li>• Manufacture of components of renewable energy technology</li> <li>• Development of products or technology and their implementation that reduces energy consumption of underlying asset, technology, product or system(s)</li> <li>• Improved efficiency in the delivery of bulk energy services</li> <li>• Manufacture of components to enable energy efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• KW of clean energy provided</li> <li>• Number of tonnes of CO<sub>2</sub> avoided</li> <li>• Number of household/residents benefitting from affordable and clean energy which is otherwise not accessible</li> <li>• Number of solar farms or wind farms</li> <li>• Location and type of solar or wind farms</li> </ul>
<p>SDG 9:  Industry, Innovation and Infrastructure</p>	<ul style="list-style-type: none"> <li>• Develop quality, reliable, sustainable infrastructure, (including regional and transborder), to support affordable and equitable access for all that will also benefit economic development and human well-being</li> <li>• Upgrade and retrofit infrastructure to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes</li> </ul>	<ul style="list-style-type: none"> <li>• Length of low carbon tracks built</li> <li>• Number of electric/hybrid/ low-emission vehicles provided</li> <li>• Number of Smart Meters provided (cities / industry)</li> </ul>
<p>SDG 11:  Sustainable Cities and Communities</p>	<ul style="list-style-type: none"> <li>• Activities that expand or maintain the supply of affordable housing</li> <li>• Activities that expand or maintain access to sustainable transport systems</li> </ul>	<ul style="list-style-type: none"> <li>• Number of households/residents</li> <li>• Length of low carbon tracks built</li> <li>• Number of electric/hybrid/ low-emission vehicles provided</li> <li>• Number of tonnes of CO<sub>2</sub> avoided</li> <li>• KW of clean energy provided</li> <li>• Number of Smart Meters provided</li> </ul>
<p>SDG 13:  Climate Action</p>	<ul style="list-style-type: none"> <li>• Adaptation projects that demonstrably contribute to reducing vulnerability to climate change identified in the project area and do not increase carbon emissions</li> </ul>	<ul style="list-style-type: none"> <li>• Length of low carbon tracks built</li> <li>• Number of electric/hybrid/ low-emission vehicles provided</li> <li>• Number of tonnes of CO<sub>2</sub> avoided</li> </ul>

**Issuing Entity's Responsibility**

HSBC is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact.

**Independence and Quality Control**

Sustainalytics, a leading provider of ESG<sup>1</sup> and corporate governance research and ratings to investors, conducted the verification of HSBC’s SDG Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from HSBC employees and review of documentation to confirm the conformance with the SDG Bond Framework.

Sustainalytics has relied on the information and the facts presented by HSBC with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by HSBC.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

**Conclusion**

Based on the limited assurance procedures conducted,<sup>2</sup> nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of the HSBC Sustainable Development Goal (SDG) Bond Framework, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the SDG Bond Framework. HSBC has disclosed to Sustainalytics that the proceeds of the two SDG bonds have been fully allocated.

**Detailed Findings**

**Table 3: Detailed Findings**

<b>Eligibility Criteria</b>	<b>Procedure Performed</b>	<b>Factual Findings</b>	<b>Error or Exceptions Identified</b>
<b>Use of Proceeds Criteria</b>	Verification of the projects funded by the SDG bonds as of June 2019 to determine if projects aligned with the Use of Proceeds Criteria outlined in the SDG Bond Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
<b>Reporting Criteria</b>	Verification of the projects funded by the SDG bonds as of June 2019 to determine if impact of projects was reported in line with the KPIs outlined in the SDG Bond Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 1.	All projects reviewed reported on at least one KPI, either in line with those suggested in the Framework or other relevant indicators.	None

<sup>1</sup> Environment, Social, and Governance

<sup>2</sup> Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

## Appendix 1: List of Projects Funded

Project Description	Location	Amount Allocated (million USD) <sup>3</sup>	Relevant SDG	Impact Reported
Wind Farm project financing	India	11	7 - Affordable and clean energy	100.8 MW of renewable energy capacity installed
Wind Farm project financing	India	8	7 - Affordable and clean energy	102.4 MW of renewable energy capacity installed
Solar Farm project financing	USA	28	7 - Affordable and clean energy	100 MW of renewable energy capacity installed to power approx. 20,000 homes
Wind Farm project financing	USA	62	7 - Affordable and clean energy	125 GWh/year of renewable energy generated to power approx. 17,000 homes
Loan to Social Housing	UK	100	11 - Sustainable cities and communities	More than 2,000 new homes built in 2018-19
Loan to Social Housing	UK	51	11 - Sustainable cities and communities	3,000 new homes to be built between 2018-2020
Water Supply Aqueduct project financing	Mexico	10	6 - Clean water and sanitation	47 million m <sup>3</sup> /year of water supplied to 3 cities of overall population of 1 million
Dairy Processing Facility project financing	Sri Lanka	72	9 - Industry, Innovation and Infrastructure	Capacity to process 200,000 L of dairy per day and support national self-sufficiency
Loan to Social Housing	UK	146	11 - Sustainable cities and communities	The development program intends to build 100,000 homes over a 10-year period.
Energy Efficient Campus project financing	UK	14	9 - Industry, Innovation and Infrastructure	BREEAM Excellent certification
Energy Efficient Campus project financing	Singapore	29	9 - Industry, Innovation and Infrastructure	> 30% energy saving, BCA Green Mark Platinum certification
Construction of New Green Building	Dubai	204	9 - Industry, Innovation and Infrastructure	LEED Gold certification

<sup>3</sup> The total allocation reflects (in million USD) the fully allocated amount from the second SDG bond issuance (MYR 533 million), in addition to the outstanding balance from first SDG bond issuance which has since been allocated to eligible projects (USD 1,013 million).

Construction of New Green Building	UK	181	9 - Industry, Innovation and Infrastructure	LEED Gold certification
Loan to Residential (Green) Building	USA	29	9 - Industry, Innovation and Infrastructure	LEED Platinum certification with CO <sub>2</sub> emissions approx. 34% lower than an average equivalent building.
Loan to New Green Hotel	USA	27	9 - Industry, Innovation and Infrastructure	LEED Gold certification with CO <sub>2</sub> emissions approx. 34% lower than an average equivalent building.
Loan to Wind Farm	Australia	41	7 - Affordable and clean energy	206 MW of renewable energy capacity installed
Financing for Healthcare Facility	Malaysia	22	3 – Good Health and Wellbeing	1,351,185 patients treated since inception
Financing for Solar PV plant	Malaysia	33	7 - Affordable and clean energy	29 MW of renewable energy capacity installed
Financing for Skyscraper Office Tower	Malaysia	47	9 - Industry, Innovation and Infrastructure	Green Building Index (GBI) Gold certification
Financing for Water Treatment Plants	Malaysia	25	6 - Clean water and sanitation	Water treatment facility with total capacity up to 148 million litres per day
Financing for new Industrialized Building System (“IBS”) Plant	Malaysia	2	9 - Industry, Innovation and Infrastructure	Minimization of the use of timber due to the elimination of conventional timber formwork; and thus, reduction of waste at the factory and construction sites. IBS construction also promotes principally safer and systematic factory setting improving working conditions for the workforce.
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Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. In 2015, Global Capital awarded Sustainalytics "Best SRI or Green Bond Research or Ratings Firm" and in 2018 and 2019, named Sustainalytics the "Most Impressive Second Party Opinion Provider. The firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance in 2018, and in 2019 was named the "Largest Approved Verifier for Certified Climate Bonds" by the Climate Bonds Initiative. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan and the Minister of the Environment Award in the Japan Green Contributor category of the Japan Green Bond Awards in 2019.

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